FedFin Weekly Alert

Monday, September 11, 2023

❑ WE'RE FLUMMOXED

FedFin's in-depth analyses continue to plumb the strategic import of the post-SVB regulatory rewrite U.S. agencies have initiated and are determined to finish no matter industry and Congressional concern. As with our impact assessment of the capital proposal (see FSM Report **CAPITAL230**), our resolution-standard analyses look at key strategic points in what the agencies say they are doing and then also at what they leave out, what seems not to make as much sense as the agencies suggest, and where the sanguine impact analyses that always accompany these proposals may be at fault. Our latest analyses address:

- **Long-Term Debt:** This proposal (see FSM Report **TLAC9**) imposes TLAC-like standards on categories II, III, and IV holding companies, IDIs, and IHCs. Our impact assessment questions the agencies' conclusion that this will have only "moderate" impact, noting for example that the agencies' analysis is based on certain actions they expect covered companies to take that are neither certain nor even likely. We also observed that the proposal does not consider the extent to which lending or other activities would suffer if funding shifts to longer-term instruments even though banks are sure to redesign asset allocation if funding maturities and costs are significantly altered.
- **Resolution Plans:** FSM Report **LIVINGWILL22** tackles the sweeping Fed/FDIC redesign of regional-bank and IHC living wills, a move intended not only to bring companies such as SVB and SBNY under strict resolution-planning requirements, but also to correct what the agencies now say are grievous flaws in the 2021 plans received from categories II and III companies even though, at the time, the agencies blessed them. While these new plans will surely make it more likely that covered companies will be resolved without resort to systemic designation, we nonetheless note that aspects of the guidance appearing to favor SPOE over MPOE could force large regional bank filers to undertake a significant resolution-planning revamp that could force organizational redesign with possibly perverse consequences. The proposal also raises questions about whether FHLB advances are included in the "lending facilities" it cites, suggesting that the banking agencies may be seeking to constrain use of these funds.

Headlines From the Past Week's Daily Briefings

September 4

- No news of note.

September 5

- **FSB Considers Resolution Construct Revamp** - In addition to calling for full and consistent implementation of the Basel III framework, the FSB head's letter to the G20 stresses that this

Federal Financial Analytics, Inc.
2101 L Street, N.W. – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com

year's bank failures challenge long-held views about deposit stickiness and the speed of bank runs, leading international standard-setters now to consider unspecified policy changes to the resolution construct.

- **BIS Study: Fed, FDIC Reassurances Offset Bank Run Risk** - Contributing to analysis of viral runs and how to stop them, a new paper from BIS staff concludes that public communication from the Fed on banking system stability and from the FDIC on deposit insurance during crises can mitigate systemwide run risk, while similar statements from political figures such as President Biden are less effective.

- **IMF: Money Laundering Undermines Financial Stability** - The IMF published a blog post on money laundering's financial-stability impact, concluding that cross-border illicit payments result in equity-price declines, higher CDS costs, elevated perceived credit risk, and declines in deposits for the individual banks involved.

September 6

- **FSB Focuses on NBFI Liquidity, Leverage with Few Concrete Actions** - Following its report recommending resolution-policy review, the FSB continued its G20 reports with two focusing on NBFIs.

- **Fed Study: Big Bank Branches May Better Serve Customers** - Fed staff have issued a report suggesting that new large bank branches tend to grow faster than new ones at small banks because large bank branches are favored by customers seeking lower prices or greater value.

- **IMF Outlines Post-SVB Supervision Standards** - In an opaque but nonetheless stinging rebuke to U.S. bank supervision, the IMF released a working paper emphasizing the importance of supervisors having the will and ability to act on effective supervision, recommending that supervisors are given strong operational independence and accountability, clarity regarding the primacy of their safety-and-soundness mandate, adequate resources, and legal protection.

September 7

- **FSB-IMF Report Lays Out Crypto-Policy Roadmap** - The FSB and IMF published a joint report synthesizing their policy and regulatory recommendations for cryptoassets, laying out a policy roadmap that breaks no new ground.

- **Senate Dems Try Again to End State Usury Ceilings** - Senate Majority Whip Durbin (D-IL) introduced another effort (S. 2730) to impose a federal usury ceiling.

- **NGFS Warns Ecological Risk Could Be Systemic** - The Network for Greening the Financial System (NGFS) released a report on nature-related financial risk concluding that ecological risk transmission could cause contagion leading to systemic risk.

- **CFPB Soon to Advance Its Open-Banking Construct** - CFPB Director Chopra announced that the CFPB will be issuing proposed rules next month to reactivate its DFA consumer data rights powers (see FSM Report **DATA3**).

- **Global Securities Regulators Craft DeFi Standards** - IOSCO released a DeFi consultation report proposing nine policy recommendations intended to support heightened regulatory consistency and oversight.

- **Waters Presses Agencies to Change SSN Collection Requirements** - HFSC Ranking Member Waters (D-CA) wrote to the leadership of the banking agencies, Treasury, and FinCEN asking them to consider allowing financial institutions only to collect a SSN's last four digits to minimize cybersecurity risks.

- **Fed Staff Suggest Solution to CBDC Privacy Problem** - Addressing one of the biggest CBDC challenges in the U.S., Fed staff published a report arguing that the use of privacy-enhancing technologies preserves digital asset user confidentiality while maintaining enough visibility for official audits in order to prevent illicit finance.

September 8

- **Barr Backs Away from CBDC, Stands Firm vs. Stablecoins -** FRB Vice Chair Barr for the first time sided firmly with Chair Powell in approaching CBDCs with caution, if at all.

- **Examining CBDC and Wholesale Payments -** The FDIC released an internal – but not necessarily independent – review of First Republic's failure, largely saying that FDIC supervisory staff could have done better identifying emerging risks without strongly criticizing actions ahead of the bank's collapse.

- **Fed Study: CBDC Unnecessary for Successful Wholesale Tokenization -** As JPMorgan and other companies continue to advance wholesale digital payments and Chair Powell has suggested (see *Client Report* FEDERALRESERVE73) that he may be open to wholesale CBDC, a new Fed staff study finds that tokenized wholesale payment systems do not require a new form of central-bank money.

This Week

Tuesday, September 12

Senate Banking Hearing entitled: "Oversight of the U.S. Securities and Exchange Commission." [10:00 am, Dirksen Senate Office Building 538]. Witness: **The Honorable Gary Gensler,** Chair, U.S. Securities and Exchange Commission.

Senate Banking Subcommittee on Housing, Transportation, and Community Development Hearing entitled: "Housing Supply and Innovation." [2:30 pm, Dirksen Senate Office Building 538]. Witnesses: **Dr. Jenny Schuetz**, Senior Fellow, Brookings Institution; **Ms. Janne Flisrand**, Co-Founder and Board Member, Neighbors for More Neighbors; **Mr. Gregory Good**, Chief Real

Estate Officer and Director of Asset Management, Invest Newark; and **Mr. Eric Schaefer**, Chief Business Development Officer, Fading West Development

Joint Agency Roundtable on Special Purpose Credit Programs. [3:00 pm, webcast]. Panelists: **Marcia L. Fudge**, Secretary, U.S. Department of Housing and Urban Development; **Michael J. Hsu**, Acting Comptroller, Office Comptroller of the Currency; **Rohit Chopra**, Director, Consumer Financial Protection Bureau Director; and **Sandra L. Thompson**, Director, Federal Housing Finance Agency.

Wednesday, September 13

HFSC Hearing entitled: "Oversight of the Committee on Foreign Investment in the United States (CFIUS) and Other Efforts to Strengthen National Security in the United States." [10:00 am, 2128 RHOB]. Witnesses: TBD.

Thursday, September 14

HFSC Subcommittee on Financial Institutions and Monetary Policy Hearing entitled: "Implementing Basel III: What's the Fed's Endgame?" [10:00 am, 2128 RHOB]. Witnesses: TBD

HFSC Subcommittee on Digital Assets, Financial Technology and Inclusion Hearing entitled: "Digital Dollar Dilemma: The Implications of a Central Bank Digital Currency and Private Sector Alternatives." [2:00 pm, 2128 RHOB]. Witnesses: TBD.

Future Events of Note

Tuesday, September 26

Treasury's Federal Advisory Committee on Insurance Open Meeting. [1:30 pm, 1500 Pennsylvania Ave. NW.] Matters to be discussed: discuss topics related to climate-related financial risk and the insurance sector; discuss topics related to cyber insurance developments and international insurance issues; receive status updates from its subcommittees and from the FIO; and consider any new business.

Wednesday, September 27

HFSC Hearing. [TBD]. Witness: The Honorable Gary Gensler, Chairperson, U.S. Securities and Exchange Commission.

Recent Files Available for Downloading

The following reports and analyses have been sent to retainer clients recently. Copies are also available to retainer clients on the Archives section of Federal Financial Analytics' website: www.fedfin.com or clients may obtain the reports/analyses by e-mailing info@fedfin.com giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click here.

- **LIVINGWILL22:** In conjunction with proposing a new long-term debt (LTD) requirement for categories II, III, and IV banks, the Fed and FDIC are pursuing other ways to enhance resolvability.

- **TLAC9:** Building on an advance notice of proposed rulemaking, the banking agencies have issued several proposals to enhance the resolvability of large banking organizations not covered by stringent GSIB standards.

- **GSE-083123:** As we noted yesterday, the global banking, securities, and insurance regulators who comprise the Financial Stability Board (FSB) are heading back to look again at securitization to see if the post-08 framework it crafted still works.

- **GSIB22:** As anticipated in the wake of recent bank failures, the FRB has proposed a significant revision

- **CAPITAL234:** With this report, we conclude our assessment of the regulatory-capital proposal with analysis of what the sum total of the credit (see FSM Report **CAPITAL231**), operational (see FSM Report **OPSRISK22**), and market (see FSM Report **CAPITAL233**) rules could do in the real world of banks, nonbanks, foreign banks, and complex market interconnections.

- **CAPITAL233:** In this analysis, we turn to one of the costliest aspects of the proposed rewrite of U.S. regulatory-capital standards: the market-risk framework.

- **GSE-081423:** As Karen Petrou's memo today suggests, there are many reasons the new operational- risk framework proposed in the capital rewrite will not only be costly for covered banks, but also counterproductive for financial resilience.

- **CRYPTO45:** In conjunction with issuing a new supervisory policy for "novel" activities, the FRB has instituted a new process requiring non-objection letters before state member banks proceed with stablecoin or dollar-tokenization activities.

Federal Financial Analytics, Inc.
2101 L Street, N.W. – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com